

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 IGA-02 FPC-01 ERDA-05 NRC-05 OES-06

ACDA-07 /108 W

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R 130906Z AUG 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 8884

AMCONSUL HONG KONG

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HONG KONG FOR REGIONAL TREASURY REPRESENTATIVE

E.O. 11652: N/A

TAGS: EFIN, RP

SUBJECT: BOND ISSUE FOR THE NUCLEAR POWER PROJECT, AND OTHER
PHILIPPINE FOREIGN BORROWINGS

REF: A) MANILA 1625, B) MANILA 3643

1. SUMMARY. ACCORDING TO LOCAL SOURCES, THE NATIONAL POWER CORPORATION (NPC) WILL LATER THIS MONTH FLOAT A \$367 MILLION BOND ISSUE IN THE U.S. THIS WILL COVER THE FINAL INCREMENT OF FOREIGN EXCHANGE FINANCING FOR THE WESTINGHOUSE NUCLEAR POWER PROJECT. THE BONDS WILL CARRY AN EXIMBANK GUARANTEE, WHICH CONSTITUTES A NEW AND IMAGINATIVE DEPARTURE FOR EXIMBANK FINANCING. THIS APPEARS TO ROUND OUT GOP BORROWING ACTIVITY FROM COMMERCIAL SOURCES FOR THE YEAR 1976 -- \$900 MILLION FOR THE NUCLEAR POWER PROJECT, \$450 MILLION FOR BALANCE OF PAYMENTS SUPPORT, AND \$75 MILLION FOR THE DEVELOPMENT BANK OF THE PHILIP-
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PINES -- ALL OF WHICH FOUND ACCEPTANCE WITHOUT APPRECIABLE DIF-

FICULTY ON INTERNATIONAL MARKETS. END SUMMARY.

2. THE GOP HAS ANNOUNCED LOCALLY THE INTENTION TO SELL, WITH EXIMBANK GUARANTEE, NATIONAL POWER CORPORATION (NPC) BONDS WORTH \$367.2 MILLION IN THE US, THUS COMPLETING FINANCING ARRANGEMENTS FOR THE WESTINGHOUSE NUCLEAR POWER PROJECT. ALTHOUGH THE PARTICULARS OF THE BOND ISSUE ARE BETTER KNOWN TO EXIMBANK THAN TO THE EMBASSY, IT MAY BE OF INTEREST TO OTHER AGENCIES TO REVIEW THIS AND OTHER RECENT GOP BORROWINGS.

3. ACCORDING TO SOURCES IN THE GOP AND IN BANCOM DEVELOPMENT CORPORATION, FINANCIAL CONSULTANT TO THE NPC, THE FIXED INTEREST RATE AND STRETCHED-OUT MATURITIES FEATURES OF A BOND ISSUE PROVED TO BE MORE ATTRACTIVE THAN CONVENTIONAL FINANCING FROM COMMERCIAL BANKS, WHICH IS GENERALLY ON A FLOATING RATE BASIS WITH MATURITIES OF 5 TO 7 YEARS. A PUBLIC OFFERING OFFERS SOME ADDITIONAL ADVANTAGE IN TERMS OF INTEREST RATE AND PUBLICITY VALUE.

4. CO-MANAGERS OF THE BOND ISSUE INCLUDE KUHN LOEB (LEADERS), FIRST BOSTON CORP., SALOMON BROTHERS, WARBURG PARIBAS BECKER, AND WHITE WELD AND CO. A SYNDICATE IS TO BE FORMED BY AUGUST 16, AT WHICH TIME THERE WILL BE A FORMAL MEETING OF THE UNDERWRITERS, GOP OFFICIALS, AND EXIMBANK. THE OFFERING WILL COMMENCE WITH FORMAL SIGNING ON AUGUST 18. THE BONDS WILL BE A COMBINAGION OF SERIAL AND SINKING FUND BONDS, WITH MATURITIES RANGING FROM 11 TO 16 YEARS. THE RATE DEPENDS ON THE MARKET AT THE TIME THE PRICING DECISION IS MADE (AUG 17), BUT BASED ON CURRENT TRENDS, SHOULD FALL BETWEEN 8.15 AND 8.40 PERCENT.

5. AN ADDITIONAL AND INTRIGUING FEATURE OF THE ISSUE IS THE PLAN TO RELEND PROCEEDS OF THE BONDS TO EXIMBANK. ACCORDING TO LOCAL SOURCES, FUNDS FROM THE BOND ISSUE WILL BE DRAWN BY NPC ON AUGUST 30, THEN INVESTED WITH EXIMBANK ON AUGUST 31. NPC WILL WITHDRAW FUNDS FROM EXIMBANK AS NEEDED. BOTH NPC AND EXIMBANK THUS BENEFIT FROM PUTTING THE FUNDS TO WORK UNTIL THEY ARE LIMITED OFFICIAL USE

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NEEDED FOR THE PROJECT.

6. WITH COMPLETION OF THE BOND ISSUE, FOREIGN EXCHANGE FINANCING FOR THE NUCLEAR POWER PROJECT WILL BE COMPLETED. \$277.2 MILLION IS TO BE LOANED DIRECTLY BY EXIMBANK AND \$256.2 MILLION BY A CONSORTIUM OF 26 BANKS, WHICH WITH THIS FINAL PORTION OF \$367.2 MILLION TOTALS SLIGHTLY MORE THAN \$900 MILLION.

7. OTHER BORROWINGS ON COMMERCIAL MARKETS BY THE GOP OR GOP AGENCIES SINCE THE FIRST OF THE YEAR ARE SUMMARIZED AS FOLLOWS (IN MILLION \$):

BALANCE OF PAYMENTS (U.S. BANK CONSORTIUM)	200
BOP (EUROPEAN BANK CONSORTIUM)	100
BOP (EUROPEAN/US BANK CONSORTIUM)	100
BOP (JAPANESE BANK YEN LOAN)	50
DEVELOPMENT BANK OF THE PHILIPPINES	75

A CENTRAL BANK SOURCE INFORMS US THAT THERE HAVE SO FAR BEEN NO DRAWINGS AGAINST THE BALANCE OF PAYMENTS TERM LOANS LISTED ABOVE, BUT WE UNDERSTAND THAT TWO DRAWINGS OF APPROXIMATELY EQUAL AMOUNTS (\$200 MILLION EACH) ARE PLANNED FOR SOMETIME IN CY 1976 AND IN CY 1977.

8. COMMENT. GOP OFFICIALS ARE MOST APPRECIATIVE OF EXIMBANK INITIATIVES IN HELPING TO ARRANGE FOR THE \$367.2 MILLION BOND ISSUE, ESPECIALLY CONSIDERING THE RELATIVELY SHORT PERIOD OF TIME (TWO MONTHS FROM THE TIME THE DECISION WAS TAKEN) FOR PREPARATION. THEY ALSO EXHIBIT SOME PRIDE THAT EXIMBANK IS BREAKING NEW GROUND WITH THIS FIRST-EVER GUARANTEE OF A BOND ISSUE. EMBASSY JOINS IN COMMENDING EXIMBANK FOR THIS IMAGINATIVE APPROACH, NOT LEAST BECAUSE THE LONG MATURITIES INVOLVED TRANSLATE INTO LIMITED IMPACT ON THE DEBT SERVICE BURDEN.

9. THIS APPEARS TO COMPLETE GOP COMMERCIAL BORROWING PLANS FOR THE YEAR. THE OFFICIAL BORROWINGS, AS WELL AS SIZEABLE PRIVATE OFFERINGS (E.G., SAN MIGUEL CORP, \$100 MILLION, AND PLANTERS PRODUCTS, \$80 MILLION), HAVE LIMITED OFFICIAL USE

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BEEN READILY ACCEPTED BY THE MARKET. AS NOTED IN REF B, THIS COULD ENCOURAGE ATTEMPTS AT FURTHER BORROWINGS NEXT YEAR, PARTICULARLY IF AN ENCOURAGING TURNAROUND IN THE EXTERNAL TRADE SECTOR FAILS TO MATERIALIZE. AS WE POINTED OUT IN REF B, HOWEVER, THE MARKET COULD BE LESS RECEPTIVE TO FURTHER ISSUES AT THAT TIME. END COMMENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LOANS, NUCLEAR POWER PLANTS, PROGRAMS (PROJECTS), FINANCIAL AGREEMENTS, FOREIGN INVESTMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MANILA12195
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760311-1362
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760856/aaaabwkk.tel
Line Count: 162
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 MANILA 1625, 76 MANILA 3643
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 25 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 MAY 2004 by BoyleJA>; APPROVED <20 SEP 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BOND ISSUE FOR THE NUCLEAR POWER PROJECT, AND OTHER PHILIPPINE FOREIGN BORROWINGS
TAGS: EFIN, RP, US, NATIONAL POWER CORP, XMB
To: STATE HONG KONG
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006